

**REPORT OF THE AUDIT OF THE  
ESTILL COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2004**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE ESTILL COUNTY SHERIFF**

**For The Year Ended  
December 31, 2004**

The Auditor of Public Accounts has completed the Estill County Sheriff's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees increased by \$19,159 from the prior year, resulting in excess fees of \$33,562 as of December 31, 2004. Revenues increased by \$33,779 from the prior year and expenditures increased by \$14,620.

#### **Report Comments:**

- The Depository Institution Should Have Provided Sufficient Collateral To Protect Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Wallace Taylor, Estill County Judge/Executive  
Honorable Gary Freeman, Estill County Sheriff  
Members of the Estill County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Estill County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Sheriff for the year ended December 31, 2004, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 5, 2005, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Wallace Taylor, Estill County Judge/Executive  
Honorable Gary Freeman, Estill County Sheriff  
Members of the Estill County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Depository Institution Should Have Provided Sufficient Collateral To Protect Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Estill County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
October 5, 2005



ESTILL COUNTY  
GARY FREEMAN, COUNTY SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

Revenues

Federal Grants		\$	9,010
State Grants			776
State - Kentucky Law Enforcement Foundation Program Fund			3,622
State Fees For Services:			
Finance and Administration Cabinet	\$	11,060	
Cabinet For Human Resources		2,490	
Sheriff Security Service		<u>8,770</u>	22,320
Circuit Court Clerk:			
Fines and Fees Collected			4,970
Fiscal Court			16,123
County Clerk - Delinquent Taxes			2,867
Commission On Taxes Collected			121,265
Fees Collected For Services:			
Auto Inspections	\$	3,416	
Accident and Police Reports		669	
Serving Papers		10,256	
Carrying Concealed Deadly Weapon Permits		<u>3,474</u>	17,815
Other:			
Sheriff's 10% Add-on Fee	\$	21,169	
Tax Collection Fees		3,088	
Miscellaneous		<u>3,935</u>	28,192
Interest Earned			305
Borrowed Money:			
State Advancement			<u>21,667</u>
Total Revenues		\$	248,932

The accompanying notes are an integral part of this financial statement.

ESTILL COUNTY  
 GARY FREEMAN, COUNTY SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2004  
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	33,858
Part-Time Salaries		5,861
Other Salaries		40,145
Overtime		1,477

Employee Benefits-

Employer's Share Social Security		5,883
Employer's Share Retirement		5,977
Employer Paid Health Insurance		3,829

Contracted Services-

Advertising		530
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Materials and Supplies-

Office Materials and Supplies		3,434
Uniforms		298

Auto Expense-

Gasoline		6,528
Maintenance and Repairs		6,767

Other Charges-

Carrying Concealed Deadly Weapon Permits		1,765
Dues		531
Postage		1,336
Miscellaneous		545

Capital Outlay-

Office Equipment		2,440
Vehicles		5,900
Deputy Equipment		1,646
		<hr/>
	\$	128,750

Debt Service:

State Advancement Repaid		<hr/>
		21,667

Total Expenditures

\$ 150,417

The accompanying notes are an integral part of this financial statement.

ESTILL COUNTY  
GARY FREEMAN, COUNTY SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2004  
(Continued)

Net Revenues	\$ 98,515
Less: Statutory Maximum	<u>64,953</u>
Excess Fees Due County for 2004	\$ 33,562
Payment to Fiscal Court - March 28, 2005	<u>33,562</u>
Balance Due Fiscal Court at Completion of Audit	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

ESTILL COUNTY  
GARY FREEMAN, COUNTY SHERIFF  
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

ESTILL COUNTY  
 GARY FREEMAN, COUNTY SHERIFF  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2004  
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months and 8.48 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 10, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$138,237 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 10, 2004.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	1,554,109
Uncollateralized and uninsured	<u>138,237</u>
Total	<u><u>\$ 1,792,346</u></u>

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## COMMENTS AND RECOMMENDATIONS





ESTILL COUNTY  
GARY FREEMAN, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2004

STATE LAWS AND REGULATIONS:

The Depository Institution Should Have Provided Sufficient Collateral To Protect Deposits

On December 10, 2004, \$138,237 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*Sheriff's Response: None*

INTERNAL CONTROL - REPORTABLE CONDITION:

The Sheriff's Office Lacks Adequate Segregation Of Duties

We conclude the internal control structure lacks a proper segregation of duties. There is a limited staff size, which prevents adequate division of responsibilities. The County Sheriff has statutory authority to assume the role as custodian of monetary assets, as well as recorder of transactions and preparer of financial statements. We recommend that the following compensating controls be implemented to offset this internal control weakness.

- The Sheriff should periodically compare the daily bank deposit to the daily checkout sheet and receipts ledger.
- The Sheriff should compare the quarterly financial report to the receipts and disbursements ledger.
- The Sheriff should prepare or review the bank reconciliation.

*Sheriff's Response: None*

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Wallace Taylor, Estill County Judge/Executive  
Honorable Gary Freeman, Estill County Sheriff  
Members of the Estill County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Estill County Sheriff for the year ended December 31, 2004, and have issued our report thereon dated October 5, 2005. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Estill County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a not material weakness.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Estill County Sheriff's financial statement for the year ended December 31, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comment and recommendation.

- The Depository Institution Should Have Provided Sufficient Collateral To Protect Deposits

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
October 5, 2005

